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## FY 1995 DEFENSE BUDGET

President Clinton today released his Fiscal Year (FY) 1995 defense budget, which he has pledged would ensure America "the best-equipped, the best-trained and best-prepared fighting force on the face of the earth."

In detailing the spending plan, Secretary of Defense William J. Perry noted that it culminates many months of intense scrutiny about how best to protect U.S. security interests in the post-Cold War era. The budget begins to implement the Bottom-Up Review, which retiring Secretary of Defense Les Aspin undertook last year to reassess U.S. defense needs.

"For America's future security, the bottom line is the Bottom-Up Review--its strategy, its force structure, its comprehensive vision," Dr. Perry said. Pointing to readiness as the new budget's top priority, he noted, "The President's budget increases spending for readiness, sustains current rates for flying hours and operations, and ensures that our military has what it needs to keep U.S. forces ready to fight."

Secretary Perry's comments echoed President Clinton's State of the Union declaration that his budget "draws the line against further defense cuts." The President also said that America's best strategy is a defense budget that "protects the readiness and quality of our forces."

The FY 1995 budget requests \$252.2 billion in budget authority for the Department of Defense (DoD). In real terms the FY 1995 budget is 35 percent below FY 1985, the peak year for DoD budget authority since the Korean War. DoD officials noted that this will be the tenth straight year of real decline for the defense budget.

### Spending Priorities and Initiatives

Reflecting DoD's emphasis on readiness, Operation and Maintenance funding--through which readiness is mainly supported--will rise \$5 billion, a 5.6 percent increase. This contrasts with the overall defense budget, which will increase

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only 1.3 percent, less than needed to stay even with inflation. O&M funds support training, maintenance, and other necessities to keep military forces ready to fight on short notice.

The benefit of O&M increases on readiness will be magnified by the fact that they will go to support a smaller force structure and shrinking inventory of equipment and facilities. Fewer military units, ships, and aircraft will draw on O&M funds for fuel, training, repair parts, etc.

Defense plans call for forces to fall substantially below Cold War levels, e.g. from 18 to 10 active Army divisions. But forces also are being reshaped, and various enhancements for their combat capabilities are projected. This reshaping reflects the Department's goal to avoid having the new defense posture end up merely a "cut-down version" of the Cold War norm.

To ensure that U.S. weapons retain their qualitative superiority in the next decade and beyond, the DoD budget emphasizes funding for Science and Technology programs. The goal is to have core S&T funding keep pace with inflation, even as the DoD total budget declines in real terms.

Defense plans also will focus on new threats and opportunities in the post-Cold War world. The budget proposes:

- \$400 million for aid to the former Soviet Union, to assist in the dismantlement of strategic nuclear weapons. Spending will go toward safely transporting and storing nuclear weapons, assisting in chemical weapons destruction, and other demilitarization.

- About \$30 million for policy support to the DoD-wide Counterproliferation Initiative, which will enhance the Department's ability to help halt and respond to the spread of nuclear weapons and other weapons of mass destruction.

With Defense spending declining in real terms, DoD is pursuing changes in the way it does business. Targets for reform include the weapons acquisition process and financial management. DoD also will be a major player in the Clinton Administration's Defense Reinvestment and Conversion Program and National Performance Review initiatives.

#### **BOTTOM-UP REVIEW**

The FY 1995 budget begins implementation of DoD's Future Years Defense Program (FYDP) for FY 1995 through FY 1999. Both the budget and the FYDP support the conclusions of the Bottom-Up Review (BUR), which was completed in late summer 1993. The BUR shifted the nation's defense strategy, force structure, modernization, and infrastructure from a posture designed to meet a global Soviet threat to one which focuses on new dangers including regional conflicts, proliferation of weapons of mass

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destruction, reversal of democratic reform in the former Soviet Union, and threats to U.S. economic security.

### Force Structure and Manpower

The BUR concluded that U.S. forces must be sufficient to deal with two nearly simultaneous major regional conflicts. This conclusion reflected a concern that if America were to be drawn into a war with one regional aggressor, another could be tempted to attack its neighbors--especially if it were convinced that the U.S. and its allies did not have enough military power to deal with more than one major conflict at a time. Moreover, sizing U.S. forces for more than one major conflict provides a hedge against the possibility that a future adversary might one day mount a larger than expected threat. It also allows for a credible overseas presence, which is essential to dealing with possible regional dangers and pursuing new opportunities to advance stability and peace.

The force levels recommended in the BUR will be reached fully by the end of FY 1999 and will be substantially below those in FY 1990 (a Cold War baseline for comparisons):

- **Army divisions:** 10 active--down from 18. The Army also will have about 37 Reserve component brigades, 15 with enhanced readiness--compared to 57 Army National Guard and Army Reserve brigades in FY 1990.
- **Navy aircraft carriers:** 11 active/1 reserve--down from 16 (included 1 reserve training carrier).
- **Air Force fighter wing equivalents:** 13 active/7 reserve--down from 24 active/12 reserve.
- **Marine Corps divisions:** 3 active/1 reserve--no change.

The Bottom-Up Review did not address nuclear forces, but DoD currently is doing an exhaustive study of America's nuclear deterrent. The Nuclear Posture Review will be the first such comprehensive study since the late 1970s. The entire range of issues will be addressed: policy, doctrine, force structure, operations, command and control, safety and security, and infrastructure. This review will shape the U.S. nuclear posture for the post-Cold War world.

In line with cuts in forces and infrastructure, personnel levels will fall well below their post-Vietnam peaks in FY 1987:

	<u>FY 1987</u>	<u>FY 1995</u>	<u>FY 1999</u>
Active military	2,174,200	1,525,700	1,452,700
Guard and Reserve	1,150,900	979,000	905,700
DoD civilians	1,133,100	873,400	793,900

These FY 1999 levels meet or exceed the BUR goals. Active military end strength will fall about 7,000 below the BUR target

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of 1,460,000. Civilian levels will fall 10,000 people below the BUR target of 804,000.

### Reserve Components

The BUR directed greater reliance on the National Guard and Reserve to help carry out the new military strategy. This also will ensure that U.S. forces will remain capable of meeting challenges to domestic stability, e.g. natural disasters.

Although the Guard and Reserve are reduced in the FY 1995 budget and FYDP, the reductions will be less than those for active forces. Innovative approaches also have been taken to size and shape the Reserve components to leverage their contributions to compensate for a smaller active force and to help control the costs of the Total Force. "Compensating leverage" means adapting Reserve component roles to build on their traditional strengths, in order to make smarter use of the forces we retain. Meaningful integration of Guard and Reserve capabilities will require enhanced readiness and improved accessibility. Initiatives to improve these areas are included in the budget.

In addition to an enhanced combat role, the Reserve components are playing an increasingly significant part in DoD's Civil-Military Cooperation plans, responding to challenges to domestic stability and security, and continuing the endeavor to stop the flow of drugs into the country. The National Guard, in particular, is a key player in supporting civil authorities in response to natural disasters or other emergencies. The skilled personnel and resources of the Reserve components also provide assistance to civil authorities in the areas of health care, education, and engineering. The FY 1995 budget funds several pilot programs authorized by Congress, such as National Guard Youth Challenge for high school dropouts.

### Industrial Base

The BUR stressed the importance of maintaining an adequate industrial and technology base, and the FY 1995 budget maintains that base. In order to ensure the continued availability of critical military systems to America's armed forces and the uninterrupted flow of technology innovations into the industrial base, DoD has funded a robust research and development program. The budget also reflects increased emphasis on the development of dual-use technologies.

DoD's rigorous assessment of the U.S. industrial base concluded that funding for certain critical defense-unique capabilities is still required. As a result, the FY 1995 budget includes: \$2.4 billion for aircraft carrier construction, which will maintain a U.S. nuclear ship production capability; \$335 million to upgrade Bradley Fighting Vehicles and Abrams tanks, which will sustain a production capability for tracked combat

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vehicles; and \$75 million to lay away and sustain the plant capacity for ammunition production.

The budget also includes more than \$600 million for the Sealift Mobility program, with \$3 billion through the entire FYDP to acquire 19 strategic sealift ships. This will help sustain the shipbuilding industry through the decade.

### Science and Technology

The Science and Technology budget reflects the need to maintain the nation's technological superiority. Excluding programs conducted by the Ballistic Missile Defense Office, the FY 1995 budget contains \$8.1 billion for core S&T programs, a real increase of four percent over FY 1994. This includes \$1.2 billion for basic research, \$3.0 billion for exploratory development, and \$3.9 billion for advanced development.

### Modernizing the Force

The Bottom-Up Review concluded that it was essential to proceed with a prudent program of selectively modernizing key weapon systems, to maintain the technological superiority of U.S. forces. Procurement funding will drop somewhat in FY 1995, but that will be partially offset by some weapons surpluses generated from declining force levels. Procurement funding is planned to increase in real terms from FY 1996 to FY 1999, which will enable U.S. forces to maintain the capabilities recommended in the Bottom-Up Review.

The FY 1995 budget supports a number of important modernization programs. Included is funding to: continue both F/A-18E/F and F-22 development; initiate the JAST combat aircraft technology program; continue development of the Army's armed reconnaissance helicopter, Comanche; improve Theater Ballistic Missile Defense; procure 3 DDG-51 destroyers; fully fund the CVN-76 nuclear aircraft carrier; continue development of a New Attack Submarine; support space launch infrastructure; continue the development of the four Milstar II satellites; develop both the Marine Corps and the Special Operations Forces variants of the V-22; continue limited acquisition of the C-17 airlifter; initiate the non-developmental airlift alternative aircraft program; and procure 18 Trident II missiles.

### Peacekeeping

Regarding funds for peacekeeping, preparations are being made for a Shared Responsibility policy in which DoD and the State Department would divide responsibility for UN operations. DoD would have lead policy responsibility for a defined portion of UN operations (largely peace enforcement missions under Chapter VII of the UN Charter). Along with this policy oversight will come a financial responsibility, which this year's budget submission reflects. The FY 1995 DoD budget

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includes \$300 million, based on potential peacekeeping activities that would likely be funded by DoD.

### Environmental Security

The FY 1995 budget includes \$5.7 billion for DoD environmental programs, 6 percent more than for FY 1994. Funding for restoration/compliance programs will enable DoD to achieve full compliance with existing laws and regulations. Funding for environmental research and development will seek both fast payback and long-term benefits by demonstrating more cost efficient and quicker cleanup and compliance technologies. The FY 1995 request for environmental cleanup of bases scheduled for closure will allow DoD to complete already scheduled base closings as rapidly as possible to enable the Department to realize early savings and to make property available to local communities. Finally, funding will support strong programs to reduce pollution at the source and to conserve natural and cultural resources.

### **PROTECTING READINESS AND QUALITY OF FORCES**

The Bottom-Up Review highlighted the importance of maintaining the high readiness and quality of America's armed forces, and the FY 1995 budget reflects this.

Operation and Maintenance budget authority will increase from \$88.0 billion in FY 1994 to \$92.9 billion in FY 1995. Much of the added funding goes to the Army for: increasing its operations tempo (OPTEMPO); enhancing its ability to get sufficient forces to conflicts quickly, by expanding its prepositioning of equipment afloat and by reconfiguring its stockpiles in Europe; increasing depot maintenance for equipment to be transferred to the Reserve Components; and additional infrastructure support. Also increased is funding for the Navy and Air Force for ship overhauls and aircraft maintenance.

Overall, the FY 1995 budget supports the DoD goal of maintaining or improving the OPTEMPO of U.S. forces. For FY 1995, Army training rates will hold at 14.5 flying hours per month per tactical aircrew and rise to 800 miles per year for tanks. Navy steaming days per quarter remain at 50.5 and 29 days for deployed and non-deployed fleets, respectively. Navy flying hours per crew per month hold at 24 hours. Flying hours per month for active Air Force tactical aircrews will stay at about 20 hours.

In downsizing U.S. forces, DoD is committed to maintaining the high quality and morale of America's uniformed men and women through sound provisions for recruiting, pay, quality of life, and other programs and policies affecting them and their families. The FY 1995 budget includes funds for a 1.6 percent pay raise for both military and civilian personnel.

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The FY 1995 budget advances various enhancements that will help the smaller U.S. force structure meet its missions. These enhancements, some already being undertaken and some still in the early planning stages, will improve:

- Strategic mobility through more prepositioning and enhancements to airlift and sealift;
- Combat capabilities of early-arriving forces with improved munitions, battlefield surveillance and communications;
- Readiness of 15 selected Army National Guard brigades and Army Reserve component combat support units; and
- Training of forces to perform additional assignments such as peacekeeping and humanitarian assistance.

Reflecting the priority of readiness are several institutional initiatives. A Senior Readiness Council was created to provide a direct channel for the military service chiefs to raise readiness issues with the Deputy Secretary of Defense. A Readiness Task Force, comprised of distinguished retired military leaders, was chartered to provide advice to the Secretary on how best to measure readiness, especially early warning indicators, and other matters affecting individual and collective readiness. Finally, the position of Under Secretary of Defense for Personnel and Readiness was created to ensure constant high-level support for all readiness efforts.

#### FUNDING LEVELS

The Bottom-Up Review was undertaken without a precise defense spending target in mind. When the BUR was completed, the Department found that the BUR program exceeded the President's spending levels by a total of \$13 billion over the FYDP period. Secretary Aspin committed to finding the remaining \$13 billion during the normal review for the FY 1995 budget and FYDP. Reductions were made to many programs to achieve this goal. However, two developments complicated the budget review.

First, Congress provided a pay raise for military and civilian federal employees, whereas the Administration had proposed a pay freeze in FY 1994. The consequence of the pay raise was to increase funding requirements over the FYDP period by over \$11 billion. This was a real bill that had to be paid because the pay raise was mandated in law.

Secondly, the rate of inflation in future years was projected to be higher than was estimated at the time the FY 1994 budget was developed. Because of this change, it was estimated that DoD would need about \$20 billion more to pay for the BUR program over the FYDP period. Unlike legally mandated pay raises, these inflation estimates are likely to change several times during the year, and may well result in inflation cost growth below the \$20 billion over five years now estimated.

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President Clinton reviewed these factors in December. At that time he reaffirmed his commitment to the BUR program. He also directed OMB to increase the overall DoD budget over the 5-year period by \$11.4 billion to provide for the effects of the pay raise over the FYDP period. However, the President opted not to budget for the multi-year inflation bill, which may or may not come due.

In order to implement the President's directives, the Department took two actions. It incorporated the full cost implications of the pay raise provided in FY 1994, and it repriced the BUR consistent with current economic estimates. These actions resulted in a defense program that exceeds the President's defense budget levels in the FY 1996-1999 period by about \$20 billion. Options to deal with this matter will be considered in developing the FY 1996-2001 FYDP--when updated inflation projections will be available.

DoD military outlays for FY 1995 are projected to be \$259.2 billion. DoD outlays as a share of America's Gross Domestic Product (GDP) are expected to fall to 2.8 percent in FY 1999, less than half the level of the mid-1980s. In FY 1999 DoD outlays as a share of federal expenditures will fall to 13.2 percent, also less than half the percentage in the mid-1980s.

### **DOING BUSINESS DIFFERENTLY**

DoD leaders are committed to doing business differently. Changes are being made in several key areas. DoD's long-range plans and FY 1995 budget support these efforts.

#### **Acquisition Reform**

The laws, rules, and regulations governing the DoD acquisition system have become barriers to the use of commercial practices, the purchase of commercial products, and the integration of defense and commercial production--all of which are necessary for smart defense acquisition. To bring strong emphasis to these issues, the Office of the Deputy Under Secretary of Defense for Acquisition Reform has been established. Near-term, priorities for reform are to simplify the acquisition of small purchases; remove impediments to the purchase of commercial items and services; reaffirm the policy preference for the acquisition of commercial items, unless a DoD-unique product or specification is the only way to meet user needs; repeal outdated and unnecessary Service-unique statutes; and adopt commercial buying practices, as permitted by law.

#### **Financial Reform**

The centerpiece of DoD financial reform is the Senior Financial Management Oversight Council, which gives senior leaders a forum to review problems and formulate corrective

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actions. DoD's financial reform blueprint includes actions to ensure strict compliance with all legal and policy requirements; break down barriers that persist within vertically oriented organizations; standardize definitions, concepts, and practices; design and install modern finance and accounting systems; align financial controls with management incentives; continue implementation of the improvement plan for the Defense Business Operations Fund; and build confidence in DoD financial data and systems.

### Dual-Use Technology/Defense Reinvestment

The FY 1995 budget reflects a concerted Administration effort to pay closer attention to the critical linkage between the military and economic components of our nation's security. DoD is working in close cooperation with the White House National Economic Council and other departments and agencies in support of President Clinton's 5-year plan to accelerate the nation's transition to a post-Cold War economy.

Key to this effort is \$2.1 billion for development of dual-use technologies. The single largest dual-use technology program is the Technology Reinvestment Project with \$625 million in the FY 1995 budget. Important dual-use programs include:

- Reinvestment initiatives to boost research and development of critical dual-use technologies, as well as efforts to commercialize and deploy these technologies;
- Programs to assist small manufacturers in upgrading their capabilities to meet commercial and defense needs; and
- Electronics and materials initiatives to support industry research to develop dual-use technologies ranging from high definition systems to composite materials manufacturing.

### Managing the Personnel Drawdown

In downsizing U.S. forces, President Clinton and DoD senior leaders are being particularly sensitive to the impact on men and women who may be forced to leave military service. The FY 1995 budget includes over \$1 billion to continue transition assistance to separating personnel in a fair and equitable manner. Assistance is both immediate, in the form of separation benefits, and long term, in the way of education and training. Some of the programs and their FY 1995 funding:

- Temporary Early Retirement (active military) \$391 million
- Civilian Separation Incentives 302 million
- Education and Training Programs 179 million
- Guard and Reserve Transition 140 million
- Transition and Relocation Assistance 72 million

### Base Realignment and Closure

DoD continues to implement the recommendations of the 1988, 1991, 1993 Base Realignment and Closure Commissions (BRAC I, BRAC II, and BRAC III). Total BRAC funding is roughly stable

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between FY 1994 and FY 1995, but there has been a significant shift in funding from BRAC II to BRAC III.

	<u>Funding Summary</u> (Billions of Dollars in B/A)		
	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
BRAC I (1988 Commission)	0.4	-	0.1
BRAC II (1991 Commission)	1.6	1.5	0.4
BRAC III (1993 Commission)	-	1.1	2.3
Total BRAC	2.0	2.7	2.8

Recommendations from the Secretary of Defense on additional base closures are due to the 1995 Base Realignment and Closure Commission by March 1, 1995.

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# NATIONAL DEFENSE TOPLINE

(Current \$ Billions)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b><u>BUDGET AUTHORITY</u></b>						
DoD Military	249.0	252.2	243.4	240.2	246.7	253.0
DoE & Other	11.9	11.5	11.9	11.8	12.0	12.1
Total National Defense	260.9	263.7	255.3	252.0	258.7	265.1
% Real Change	-9.0	-0.9	-5.9	-4.0	-0.2	-0.3
<b><u>OUTLAYS</u></b>						
DoD Military	267.4	259.2	249.1	244.6	244.7	245.5
DoE & Other	12.5	11.5	11.9	11.8	11.9	12.0
Total National Defense	279.8	270.7	261.0	256.4	256.6	257.5
% Real Change	-6.0	-5.2	-6.4	-4.5	-2.7	-2.4